

DoD and VA Take Innovative Steps to Reduce Healthcare Supply Chain Costs

By Rebecca Oles

DoD/VA Data Synchronization Team

With health facilities across the country struggling to make ends meet, the Departments of Defense (DoD) and Veterans Affairs (VA) are demonstrating leadership by collaborating in efforts to reduce unnecessary costs and improve operations in the federal healthcare supply chain. Through the innovative joint incentive funding (JIF), the DoD and VA are linking and expanding their ongoing initiatives to both standardize and synchronize product information between their hospitals and supplier partners.

The DoD and VA JIF program is important because it takes aim at a significant problem in healthcare -- inconsistent and inaccurate product information. Bad data contributes to the inefficient exchange of information in the supply chain, adding costs to an already burdened industry and potentially impacting patient safety.

“Our ongoing effort to reduce costs through synchronized data holds promise for the entire industry. While we are seeing exciting results, our work really serves as an interim step that will help us drive efficiencies internally until a larger, industry-wide solution becomes a single, updated source for standardized and synchronized medical and surgical product information,” says Kathleen Garvin, program manager for DoD/VA Data Synchronization. “Such an industry product data utility (PDU) has the potential to bring the same level of efficiencies to the healthcare supply chain that data synchronization has brought to many other multi-billion dollar industries, including the grocery and retail industries.”

To support the data synchronization program, the DoD is successfully synchronizing data housed in the materials information systems of 35 military hospitals with product data from more than 20 supplier partners and two major distributors. To date (as of Nov. 14, 2007), the DoD has documented \$18.9 million in product price reductions, and moved \$7.9 million in 1,218 purchase order line items to e-commerce. Newer to the effort, the VA has 24 hospitals participating with more pending over the next 90 days. The hospitals are using custom software to pull product, purchasing and contracting data from a robust, authoritative and synchronized data source known as the Product Data Bank (*see sidebar*). This allows users to quickly identify and research opportunities to reduce costs, particularly in areas where hospitals may be able to leverage existing supply contracts that offer better pricing than what they may have been paying previously.

“Accurate product information is key to improving efficiencies in the Medical Supply Chain, synchronizing critical medical data across the continuum of care, from medic to the medical center,” says Colonel Marsha Langlois, director of the Medical Customer Operations Directorate at the Defense Supply Center Philadelphia (DSCP).

“Standardizing product data reduces healthcare costs, and most importantly, expedites delivery of the right items to our war fighters.”

Improving healthcare supply chain data not only improves supply chain processes and transactions, it ensures that clinicians have the right supplies to provide quality patient care, according to Fred Downs, chief officer, Prosthetics and Clinical Logistics, Office for Veterans Health Administration (VHA). “It is more critical than ever that VA and DoD clinicians have the supplies they need when they need them, to ensure their patients’ health and well-being.” Downs adds that he hopes to have every VA hospital participating in the joint data synchronization program, for a minimum of \$10 million in savings identified for VA hospitals in the next 18 months.

Hospitals participating in the program are researching savings opportunities that can range from a few hundred dollars to hundreds of thousands of dollars a year on a single item. Most opportunities are ones that hospitals can easily implement.

“Individual success stories can add up quickly to millions of dollars in potential savings when applied across the hundreds of DoD and VA hospitals,” says Dana Baker, director of Army Medical Logistics Systems Division, who initiated the development of a data sync software tool for the Army Surgeon General in 2003.

“The way the medical marketplace changes from day to day, we need ways to identify opportunities to get the best prices and sources for items we are buying,” says Janet Hinkle, supervisor of Materiel Branch at Fort Carson, Colo. “There aren’t enough hours in the day to identify these savings opportunities manually, so having the technology that sheds light on cost savings is extremely valuable.”

The JIF program is producing tangible results, according to John Hinson, chief, Logistics Management Service at VHA’s Northern California Healthcare System, Sacramento, Calif. “Key to our progress is the identification and application of key data elements that drive efficiencies in the supply chain. VA, DoD and our suppliers are using pre-defined criteria for the standardization of our data, and the databases that feed our systems are being synchronized to establish a common language for the products we use, paving the way for more insightful and accurate spending analyses based on individual items instead of commodities. Synchronized product data allows us to make decisive changes that could have an immediate impact on our bottom line,” Hinson says.

Hinson adds that previous spending analysis generally revolved around commodity analysis with multiple classification schemes. He and his colleagues at VA are especially excited about what a foundation of synchronized data means for the future of the healthcare supply chain – an accurate platform for the implementations of Radio Frequency Identification technologies and the electronic health record. “With synchronized data, the future is bright,” Hinson says.

Improving the quality of patient care and eliminating unnecessary spending on such important, high-profile topics these days, the VA and DoD data synchronization partnership is an example of the federal healthcare community mobilizing around shared goals of reducing costs, increasing efficiencies and improving patient safety. These successes highlight the need for healthcare to adopt a wider product data utility (PDU)

solution that uses industry-accepted global data standards. Such a solution will offer benefits for the entire healthcare community, both commercial and federal.

Sidebar: Leveraging the Power of Synchronized Data: DoD and VA Create Robust Medical and Surgical Product Data Bank

The \$200 billion U.S. healthcare supply chain is drowning in data. Hospitals use thousands of items on a daily basis, and hospitals' materials managers deal with hundreds of suppliers and thousands of contracts to keep their facilities well-stocked, resulting in overwhelming amounts of supply chain data being accumulated. In addition, the typical hospital's IT infrastructure is disparate and outdated, and contains information that is old, duplicative or incorrect, making it cumbersome and costly to conduct effective supply chain spending analyses.

The federal healthcare supply chain is not immune to the bad data problems that plague the entire industry. The DoD and VA, however, are joining forces to turn their vast supply chain data into powerful information by creating a dynamic enterprise data engine called the Product Data Bank (PDB). The PDB serves as an authoritative resource for synchronized medical product information within the DoD and VA, at least until a wide scale industry PDU with global healthcare data standards becomes a reality in healthcare, providing a single, updated source for standardized and synchronized medical and surgical product information for all trading partners.

Through an innovative joint incentive project, the VA is now contributing its supply chain data to the PDB, making it even more robust as a tool for cost-savings and analyses for both the VA and DoD. The PDB now contains more than one million medical and surgical product records and is growing.

“With an accurate and synchronized data backbone to all of our processes, we are revolutionizing our supply chain,” says Michelle Whitehead, director of Logistics Operations, Prosthetics and Clinical Logistics Office, VHA. “Having enterprise-level data synchronized with site-level item masters means that materials managers will have accurate and consistent data at their fingertips. Armed with powerful information, hospitals will be able to take the steps necessary to get better pricing, for example.”

Operating in a net-centric environment and using more than 75 Web services, the PDB standardizes and synchronizes important enterprise-level source files from all hospital sites across the DoD and VA supply chain, including Distribution and Pricing Agreements, Federal Supply Schedules, the DoD Master Database and the VA National Item File. It is packed with critical product and packaging data, pricing, enterprise-wide purchasing data, product classification and contract data.

A robust, authoritative data source enables the DoD and VA each to evaluate price variables between contracts for the same item across their respective health systems and potentially use joint negotiating power to establish more advantageous supply contracts. The DoD and VA are uncovering price variances on products, leading to savings

opportunities that previously would have been impossible to find due to the disparate, incomplete and outdated nature of the data housed in hospitals' IT systems. For example:

- The average price for a certain IV set shows \$115 for the DoD and \$75 for the VA per unit, representing a potential for DoD to save \$240,000, or 34% on that one item alone.
- The average price per unit for pre-washed sterile gauze shows \$110 for the VA and \$65 for the DoD, representing an opportunity for VA to save up to \$350,000 a year, or 40% on that one item alone.

“Visibility of spending information based on accurate, synchronized data yields powerful results. We can help our hospitals to locate the right product and price on a consistent basis, as well as to provide optimal long-term value through more effective negotiations of national and regional contracts,” says Fred Downs, chief officer, Prosthetics and Clinical Logistics Office for VHA.

“Without a dynamic data infrastructure in place, hospitals have limited visibility into enterprise-level spending activity, and must rely on static and largely inaccurate information. The VA looks forward to the ability to make greater sense of the data housed in our own hospitals' materials management systems, allowing more meaningful analyses of spending,” Downs adds.

As the data engine for the ongoing VA and DoD data synchronization effort, the PDB enabled DoD hospitals to save \$18.9 million to date (as of Nov. 14, 2007) by populating reports that hospitals use to identify costs savings opportunities. In addition, the PDB serves as a resource for the DoD's self-built pilot PDU. The DoD is testing the PDU concept for the entire industry. DoD's goal is to transition its PDU pilot concept into an industry-adopted and managed PDU solution.

“Data is an underutilized asset in most businesses. By ensuring clean, quality, standardized and synchronized data in our enterprise, we can better manage this asset and bring efficiencies to our mission” says Dan Magee, PhD, acting program manager for the Defense Medical Logistics Standard Support, DoD, which oversees the data synchronization initiative.

Rep. Jim Moran, D-Va., is championing efforts to fund important healthcare IT projects across the healthcare industry. He says, “With healthcare costs continually rising, it has never been more important to take the steps necessary to reduce costs and improve the way we do business. Improving healthcare supply chain processes and data should be a priority for our nation's healthcare system, as it provides a way to save valuable financial resources while also improving patient safety.”